

DC Custody 06 Q&A

1. RE: Scope of Services. Can you give additional detail on what performance measurement and analytics services are required for Public Markets Separate Account Portfolios and what performance measurement and analytics services are required for Commingled Investments (daily and/or monthly rate of return, universe, analytics, and attribution)? Do you require 'look through' to the underlying securities within the Commingled Investments? What services do you receive today from your custodian?

THE FOLLOWING SERVICES ARE REQUIRED AND ARE PROVIDED TODAY BY A SERVICE PROVIDER:

MONTHLY:

MONTHLY RATE OF RETURNS AND BENCHMARK COMPARISONS WOULD BE REQUIRED FOR ALL INVESTMENT ACCOUNTS, BOTH PUBLIC MARKET AND COMMINGLED INVESTMENTS (CURRENTLY 24 ACCOUNTS). BENCHMARK COMPARISONS WOULD INCLUDE CUSTOM BENCHMARKS FOR LIFECYCLE FUNDS AND FOR THE STABLE VALUE FUNDS (WEIGHTED COMPOSITE BENCHMARKS).

QUARTERLY:

RETURN SUMMARY AND BENCHMARK COMPARISONS.

UNIVERSE COMPARISONS USING LIKE ASSET CATEGORIES FOR INVESTMENT ACCOUNTS. PORTFOLIO CHARACTERISTICS AND ATTRIBUTION FOR ACTIVE US EQUITY ACCOUNTS (CURRENTLY 5), FOR ACTIVE NON US EQUITY ACCOUNTS (CURRENTLY 1), AND FOR ACTIVE FIXED INCOME ACCOUNTS (CURRENTLY 5) USING PORTFOLIOS IN SEPARATE ACCOUNTS/ OR LOOK-THROUGH TO SECURITIES IN COMMINGLED ACCOUNTS.

2. Although Performance Measurement and Analytics are listed in the Scope of Services, should all fees related to these services be listed under question three (3) of Section VII: Fee Proposal as opposed to being included in the All-Inclusive Flat Fee?

PLEASE SHOW THE FEE PROPOSAL FOR PERFORMANCE MEASUREMENT AS A SEPARATE COMPONENT AND ALSO AS PART OF THE ALL INCLUSIVE FLAT FEE.

3. Section VII: Fee Proposal, question six (6) Fee Disclosure: Can you give additional direction on what level of disclosure you desire? For instance, we act as custodian for many investment managers including some that you contract with. We receive compensation from these managers for services provided related to custody and consider these fee arrangements to be confidential.

PLEASE DISCLOSE AS MUCH INFORMATION AS POSSIBLE.

4. Are the four (4) separate account fixed income funds part of the Stable Value Option or the underlying managers of synthetic GIC contracts within the Stable

Value Option? Are these the only funds that currently have securities that require custody (as opposed to Commingled funds)? Can you estimate the number of holdings and annual buy/sell transactions? If any holdings are non U.S. can we receive this information by country including market value?

THE INCOME FUND (STABLE VALUE OPTION) HAS 4 SUB-ADVISORS. BLACKROCK, IRM AND WELLS MANAGE INDIVIDUAL BOND PORTFOLIOS, EACH CONTAINED IN SEPARATE CUSTODY ACCOUNTS WITH THE INCOME FUND CUSTODIAN. SEE THE RESPONSE AND ATTACHMENTS TO QUESTION 22 BELOW FOR TRANSACTION COUNT. A LIST OF HOLDING WILL BE MADE AVAILABLE UPON REQUEST VIA EMAIL TO JLACARA@TRE.STATE.MA.US.

THE FOURTH SUB-ADVISOR IS INVESCO. INVESCO'S "SEPARATE ACCOUNT" (I.E., NOT A MUTUAL FUND) PORTFOLIO CURRENTLY CONSISTS OF STIF AND UNITS OF TWO COLLECTIVE TRUST FUNDS. THESE THREE INVESCO LINE-ITEM MARKET VALUE HOLDINGS ARE ALSO MAINTAINED IN A "CUSTODY" ACCOUNT AT THE INCOME FUND CUSTODIAN. WHILE INDIVIDUAL INVESCO INVESTMENT TRANSACTIONS IN THE COLLECTIVE TRUST FUNDS AREN'T SEEN BY THE INCOME FUND CUSTODIAN, ALL INCOME FUND CASH FLOWS COME INTO AND OUT OF THE INVESCO PORTFOLIO. THUS, THERE ARE BUYS AND SELLS WITHIN STIF AND THE COLLECTIVE TRUST FUNDS IN RESPONSE TO PLAN CASH FLOWS.

EACH OF THE 4 SUB-ADVISOR ACCOUNTS IS HELD IN AN ACCOUNTING RECORD BY THE INCOME FUND CUSTODIAN AT MARKET VALUE. EACH OF THE SUB-ADVISOR ACCOUNTS ARE ALSO HELD AT BOOK VALUE WITHIN SYNTHETIC GICS WITHIN THE INCOME FUND. THE INCOME FUND CUSTODIAN IS RESPONSIBLE FOR MAINTAINING A RECORD OF THESE BOOK VALUE AMOUNTS, WITH INVESCO PROVIDING THE DAILY BOOK VALUES.

5. Does the custodian have any required duties related to the Life Insurance Investment Option? If so, can you detail those requirements?

NO.

6. Cash Management- "the custodian will be responsible for investing all liquid cash within the Income fund",

- Is there any additional cash available for the custodian to sweep into our proprietary Investment vehicles? If so, what is the average daily balance we could expect to invest for you.

NO ADDITIONAL CASH IS AVAILABLE BEYOND THE STIF.

7. Are there any non-US actively managed accounts? There doesn't seem to be any global accounts with the exception of the State Street EAFE passive international (institutional commingled fund).

YES, PLEASE REFER TO PAGE 11 OF THE RFR FOR FURTHER DETAIL.

8. Regarding the Income Fund (The 4 Separate Accounts) could you please tell me the total number of both transactions/per month as well as the number of issues in each of these accounts?

SEE RESPONSE TO QUESTIONS 4 ABOVE AND 22 BELOW.

9. Finally, do you require "unitization" across all of the 23 accounts?

NO, PLEASE REFER TO THE CHART ON PAGE 14 OF THE RFR FOR FURTHER DETAIL.

10. Please detail any required duties expected of vendor with respect to the self-directed (Ameritrade) and insurance (Monumental Life Insurance Company) components.

NO DUTIES ARE REQUIRED.

11. Please describe the current process and timing for gathering daily price data from the commingled / mutual funds. Is there a required process agreed to with the sponsor of each pool?

CURRENT PROCESS – FAX, NSCC (NATIONAL SECURITIES CLEARING CORPORATION), AND / OR FILE DIRECT FROM INVESTMENT COMPANY / CUSTODIAN. TIMING – BEST EFFORTS BY 6:30PM EST, NO LATER THAN 7:00PM EST; IF DELAYED, COMMUNICATION TO ING FUND OPS WILL BE MADE BY INVESTMENT COMPANY / CUSTODIAN.

12. What is timing of daily reporting?

NAV PRICING NEEDED BY 6:30PM EST, NO LATER THAN 7:00PM EST, TRADES SENT TO INVESTMENT COMPANY NO LATER THAN 9:00AM EST, WIRE TO SETTLE PURCHASE TRADES WILL BE SENT NO LATER THAN THE CLOSE OF THE MARKET.

13. Is monthly manager reconciliations suitable?

MANAGER RECONCILIATIONS OF SEPARATE ACCOUNT HOLDINGS IS SUITABLE, UNLESS OTHERWISE REQUESTED.

14. Please describe the practice and process for tracking 12-b-1 and other trailer payments.

ING TRACKS THE FUNDS THAT PAY DIVIDENDS AND REBATES AND SEVERAL DAYS PRIOR TO THE EXPECTED DUE DATE, THE PLAN MANAGER CONTACTS THE FUND COMPANY TO GET THE AMOUNT AND DATE OF THE EXPECTED WIRE TRANSFER.

15. Will you kindly forward data on transactions.

SEE 22 BELOW.

16. Please provide a complete and detailed list of holdings.

A LIST OF HOLDING WILL BE MADE AVAILABLE UPON REQUEST VIA EMAIL TO
JLACARA@TRE.STATE.MA.US

17. Stable Value Fund:

- Will selected vendor be the custodian of underlying assets?
- Please indicate how many underlying contracts?
- Will INVESCO relay wrapper amounts, maturities, and cash flows to accounts with underlying assets?
- Confirm that all assets priced at cost (i.e., no pricing costs)

YES, THE SELECTED VENDOR WILL BE THE CUSTODIAN OF UNDERLYING ASSETS, AS NOTED IN 4 ABOVE. THERE ARE CURRENTLY 6 DIFFERENT WRAP CONTRACTS IN THE INCOME FUND (3 FOR INVESCO, PLUS ONE EACH FOR THE OTHER 3 SUB-ADVISORS), BUT THERE MAY BE MORE OR LESS WRAPS IN THE FUTURE. INVESCO IS RESPONSIBLE FOR CALCULATING THE DAILY BOOK VALUE BALANCES IN EACH OF THE CONTRACTS, MANAGING OVERALL INCOME FUND CASH FLOWS, AND FOR PASSING THAT INFORMATION ALONG TO THE CUSTODIAN AND SUB-ADVISORS AS NEEDED. ASSETS IN EACH CUSTODY ACCOUNT HOLDING SECURITIES ARE TO BE VALUED DAILY AT MARKET BY THE CUSTODIAN. INVESCO IS RESPONSIBLE FOR PROVIDING, OR CAUSING TO BE PROVIDED, DAILY MARKET VALUES OF THE UNITS OF ITS COLLECTIVE TRUST FUNDS.

18. Life Cycle Funds:

- Is the custodian required to allocate inflow/outflow to the asset allocation funds among the institutional commingled funds in which they invest, or maintain a liquidity buffer. Will the selected vendor be required to report that information to the recordkeeper or does the recordkeeper process this automatically.

THE RECORDKEEPER HANDLES THE CASH FLOWS AND REBALANCES THE LIFECYCLE FUNDS DAILY.

- Which party (ING or Selected Vendor) places trades mutual/commingled funds?

THE RECORDKEEPER (ING) PLACES ALL TRADES.

- Which party is responsible to true up to policy weightings?

THE LIFECYCLE FUND IS REBALANCED DAILY BY THE RECORDKEEPER.

19. Trading Mutual/Commingled Funds:

- Are funds NSCC- eligible?

NSCC FUNDS ARE AVAILABLE IN THE PLAN.

20. Tax Lot

- RFR mentions tax lot as a requirement; can you please provide explanation of this requirement.

TRACK THE COST BASIS OF TRANSACTIONS HELD IN CUSTODY.

21. Foreign Tax Reclaims

- RFR mentions this as a requirement of custodian; will Commonwealth transition to separately managed global account?

THE COMMONWEALTH IS NOT IN THE PROCESS OF TRANSITIONING TO A SEPARATELY MANAGED GLOBAL ACCOUNT. THERE ARE NO PLANS TO DO SO IN THE IMMEDIATE FUTURE.

22. Please provide detailed asset listings and transaction volumes by transaction type for each of the separate accounts in the Income Fund and/or elsewhere as the case may be.

A LIST OF HOLDING WILL BE MADE AVAILABLE UPON REQUEST VIA EMAIL TO JLACARA@TRE.STATE.MA.US

THE TABLE BELOW SHOWS THE MONTHLY TRANSACTIONS WITHIN THE THREE ACTIVELY TRADED BOND ACCOUNTS FOR 2005 AND 2006 TO DATE.

	2005												2005 Total
Acct Name	0131	0228	0331	0430	0531	0630	0731	0831	0930	1031	1130	1231	
Blackrock	124	66	77	101	94	163	83	206	126	105	152	70	1,367
IR&M	17	17	16	9	10	18	22	39	18	21	8	17	212
Wells Cap	379	355	536	552	486	522	378	382	385	386	350	392	5,103
	520	438	629	662	590	703	483	627	529	512	510	479	6,682

	2006				2006 Total	Grand Total
Acct Name	0131	0228	0331	0430		
Blackrock	83	48	49	91	271	1,638
IR&M	17	23	19	20	79	291
Wells Cap	433	443	411	466	1,753	6,856
	533	514	479	577	2,103	8,785

23. What is the annual transaction volume for all investment options including wires, transfers between funds, etc?

FOR 2005 INCOMING TRANSACTIONS TOTALED \$338,940,000, OUTGOING TRANSACTIONS TOTALED \$204,212,000. IFT VOLUME WAS \$160,856,000.

24. Please confirm the reason separate accounts in the Income fund are unitized?

SEE 33 BELOW.

25. What are the "Public Markets Separate Accounts" on page 14 (section A - it mentions US and Non US equities??). Does this relate solely to the Income Fund Separate Accounts?

THIS REFERS SOLELY TO THE INCOME FUND SEPARATE ACCOUNTS. IN THE FUTURE SEPARATE ACCOUNTS FOR EQUITY MANDATES MAY BE ADDED. TO DATE, ONLY THE INCOME FUND CONSISTS OF SEPARATE ACCOUNTS.

26. Public Markets Separate Accounts - Please explain the requirements regarding manager reconciliations daily and/or monthly.

SEE 13 ABOVE.

27. Page 12 - what is required from an accounting and reporting standpoint for the self directed and life insurance accounts?

NO SERVICES ARE NEEDED.

28. The RFR states that manager fees need to accrue on a daily basis, is this the basis for calculation of performance measurement, or are expenses to be excluded as well?

ALL FEES SHOULD BE BUILT INTO THE DAILY NAV CALCULATIONS. TYPICALLY, A FUND COMPANY WILL ACCRUE THE FEES AND THEN DEDUCT THEM PERIODICALLY (E.G., MONTHLY).

29. Is this the method that the investment managers calculate and provide their performance to Massachusetts Treasury?

PERFORMANCE IS COMPUTED BASED ON THE ASSUMPTION OF AN INITIAL INVESTMENT OF \$1,000 AND THE VALUE AT THE END OF THE APPLICABLE TIME PERIOD.

30. In reference to Question 3 in Section G2 of the RFR Questionnaire, are there any other managers not currently mentioned in Section B – Investment Options under the section labeled core investment options?

Question 3: "Do you currently have accounting and reporting relationships with the Commonwealth's investment managers? Please list the managers with whom you do not have a relationship. Describe how you would handle the fee accrual reconciliations and the 12b-1 rebates

THERE ARE NO OTHER MANAGERS OTHER THAN THOSE DESCRIBED IN SECTION B.

31. How many commingled funds are in each of the asset allocation funds? Which commingled funds are in which asset allocation funds?

EACH OF THE ASSET ALLOCATION FUNDS ARE COMPRISED OF FOUR PASSIVELY INVESTED COMMINGLED FUNDS: (1) STATE STREET S&P 500 FLAGSHIP FUND SERIES A , (2) STATE STREET RUSSELL 2000 INDEX FUND, (3) STATE STREET EAFE FUND, (4) STATE STREET PASSIVE BOND MARKET INDEX.

32. Will the asset allocation funds be rebalanced periodically? Who will direct that rebalancing?

ASSET ALLOCATION FUNDS ARE REBALANCED DAILY BY THE RECORDKEEPER.

33. For the stable value fund, please confirm that only one unit value for the account managed by Invesco is needed daily. Also, please confirm that the four separate accounts managed by BlackRock, Income Research and Management, Wells Capital Management, and Invesco are accounts that will hold assets in support of the book value investment contracts managed by Invesco.

THE ENTIRE INCOME FUND HAS A SINGLE UNIT VALUE EACH DAY, AS CALCULATED BY THE INCOME FUND CUSTODIAN. THIS UNIT VALUE REFLECTS THE GROWTH OF BOOK VALUES IN THE SYNTHETIC GICS (AND TRADITIONAL GICS, IF ANY) AND STIF HELD IN THE INCOME FUND. THE CUSTODIAN TAKES A DAILY FEED OF TOTAL INCOME FUND BOOK VALUES FROM INVESCO BY TYPE, ACCRUES CERTAIN INCOME FUND FEES AGAINST THAT BOOK VALUE BALANCE, AND THEN CONVERTS THAT NET BALANCE INTO A DAILY NAV OR UNIT VALUE. THESE NET BOOK VALUE NAVS OR UNIT VALUES ARE THEN PROVIDED DAILY TO THE PLAN RECORD KEEPER FOR POSTING DAILY INTEREST INCOME TO PARTICIPANT ACCOUNTS. NOTE THAT THERE ARE NO "UNIT VALUES" OR NAVS CALCULATED SEPARATELY FOR ANY INDIVIDUAL SUB-ADVISOR IN THE INCOME FUND.

34. Please confirm whether only the unitized investment options or all investment options will be held by the custodian. Are all of the unit values and NAVs for all investment options in the plan transmitted by the custodian to ING? Are any unitized investment options not held with the custodian?

ONLY THE SEPARATE ACCOUNTS DETAILED IN THE CHART ON PAGE 14 OF THE RFR WILL BE HELD BY THE CUSTODIAN. CURRENTLY UNIT VALUES AND NAVS ARE TRANSMITTED TO ING BY EACH FUND. UNIONIZATION REQUIREMENTS MAY BE FOUND ON PAGE 14 OF THE RFR. NAV VALUES ARE TRANSMITTED EITHER BY THE CUSTODIAN OR THE INVESTMENT COMPANY DIRECTLY TO ING. NSCC IS ALSO RECEIVED.

35. For the unitized investment options only, confirm that ING will place all trades current day after the market closes and that they will get the current day NAV (Trade Date). Please confirm that the custodian will settle all Trade Date trades on T+1.

CONFIRMED. TRADES PLACED ON "T" WILL BE PROVIDED TO INVESTMENT COMPANY / CUSTODIAN AND SETTLED ON "T + 1". TRADES PROCESSED ON "T" WILL RECEIVE THE CLOSE MARKET PRICE.

36. If the custodian is to hold all investments for the plan, then please explain how the self directed and life insurance options work?

NO SERVICES ARE NEEDED FOR THESE OPTIONS.

37. Automated link with ING. Our preference is to have a fully automated link in place on day one. We also prefer to have our standard format and activity codes

39. Please clarify what is intended by "the fiduciary standards of conduct and other requirements as they apply to the Custodian" as referenced in Question 25 from the RFR . Where can the requirements be found, spelled out as they apply under

the Agreement? Does question D., 4., below refer to services not required by the RFR?

II., A., 25. Fiduciary Status of The Custodian; Chapter 268A. With respect to the performance of its duties and responsibilities hereunder, the Custodian acknowledges that it is a fiduciary, and that the Custodian will discharge its duties and responsibilities under this Agreement in accordance with the fiduciary standards of conduct and other requirements as they apply to the Custodian. The Custodian is advised of the existence of Massachusetts General Laws, Chapter 268A (the Massachusetts "Conflict of Interest" statute), and is required to act and perform its duties in accordance with such provisions.

"FIDUCIARY", ANY PERSON WHO EXERCISES ANY AUTHORITY OR CONTROL RESPECTING MANAGEMENT OR DISPOSITION OF ASSETS.

D., 4. Define your organization's fiduciary responsibility, as it would pertain to the Commonwealth's IRC 457 Deferred Compensation Plan. Specifically, what are the scope, depth and limitation of such fiduciary conduct relative to all services required by this RFR (trust, custody, investment management related functions, etc.)?

D., 4. APPLYS.

40. Is FX trading Equity or Fixed Income related?

FX TRADING WOULD BE EQUITY RELATED IN NON US EQUITY ACCOUNTS. HOWEVER, THESE ARE CURRENTLY IN COMMINGLED VEHICLES SO NO FX TRADING IS ANTICIPATED.

41. Are any assets internally managed? If in-house, do you leave the FX to the custodian?

NO ASSETS ARE MANAGED IN-HOUSE.

42. Regarding FX for external managers, please provide assets, by currency, if not already provided on the detailed asset listing by manager?

N/A TO DATE.

43. Is currency traded as an asset class?

N/A

44. Do you manage or outsource a currency overlay program?

NO

45. What is the average amount invested in the custodian's STIF?

CURRENTLY, THE STIF BALANCE IS APPROXIMATELY \$10 MILLION, BUT IT COULD RANGE FROM \$0 TO \$30 MILLION OR MORE.

46. I. Contractor Authorized Signature Verification Form – In reviewing the forms on the web site www.mass.gov/osd under OSD Forms, there is a form named “Contractor Authorized Signatory Listing”. Please confirm that this is the form to utilize as the required “Contractor Authorized Signature Verification Form” as part of our RFR submission.

YES, THE “CONTRACTOR AUTHORIZED SIGNATORY LISTING” IS THE FORM TO UTILIZE AS THE REQUIRED “CONTRACTOR AUTHORIZED SIGNATURE VERIFICATION FORM” AS PART OF THE RFR SUBMISSION.

47. L. Affirmative Action Plan Form – On the web site there is a form called “Affirmative Action Commitment Statement”. Please confirm that is the form to utilize as the required “Affirmative Action Plan Form” as part of our RFR submission. Also, in the RFR where this Form is discussed (page 18) the RFR states that you are to include a copy of your affirmative action plan. Please clarify and define what Affirmative Action Plan is required, (i.e. is this in reference to the Federal Guidelines under Executive Order #11246, state mandates or specific to Disabled Veterans and Minority/Women)?

YES, THE “AFFIRMATIVE ACTION COMMITMENT STATEMENT” IS THE CORRECT FORM TO SUBMIT WITH YOUR RESPONSE. PLEASE INCLUDE YOUR OFFICIAL AFFIRMATIVE ACTION PLAN FOR YOUR FIRM.

48. What do you see as the role of the custodian with the Self Directed Mutual Fund Window and the Universal Life Insurance Account by Monumental Life Insurance Company (Aegon)?

NO SERVICES ARE NEEDED.